

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name BESSEMER AREA SEWER AUTHORITY	County GOGEBIC
Audit Date 6/30/05	Opinion Date 1/20/06	Date Accountant Report Submitted to State: 1/25/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) DAVID TRACZYK CPA			
Street Address 327 SILVER ST	City HURLEY	State WI	ZIP 54534
Accountant Signature <i>David Traczyk CPA</i>		Date 1/25/06	

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name BESSEMER AREA SEWER AUTHORITY	County GOGEBIC
Audit Date 6/30/04	Opinion Date 1/20/06	Date Accountant Report Submitted to State: 1/25/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) DAVID TRACZYK CPA			
Street Address 327 SILVER ST	City HURLEY	State WI	ZIP 54534
Accountant Signature <i>David Traczyk, CPA</i>		Date 1/25/06	

BESSEMER AREA SEWER AUTHORITY
BESSEMER, MICHIGAN
AUDITED FINANCIAL STATEMENTS

June 30, 2005 AND 2004

Table of Contents

	Page
Management's Discussion and Analysis	3
Independent Auditor's Report	8
Statement of Net Assets	9
Statement of Revenues, Expenses, and Changes in Net Assets	11
Statement of Cash Flows	12
Notes to Financial Statements	13
Other Financial Information:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	24

BESSEMER AREA SEWER AUTHORITY
Management Discussion and Analysis
Year ended June 30, 2005

This section of the Bessemer Area Sewer Authority (the 'Authority') annual financial report presents our discussion and analysis of the Authority's financial performance during the year ended June 30, 2005. It is to be read in conjunction with the Authority's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB34) Basic Financial Statements – and Managements Discussion and Analysis – For State and Local Governments, as amended and interpreted, and is intended to provide the financial results for the fiscal years ended June 30, 2005, and 2004.

GENERAL INFORMATION

The Authority was formed in 1985 to provide sewage disposal for the City of Bessemer and Bessemer Township residents that were served by the separate municipal systems. The Authority was created by the 2 municipalities and is operated independent from the municipalities. It is governed by a Board of Trustees that are appointed by the member municipalities.

Each of the member municipalities have adopted sewer use ordinances to set rates charged to their customers. These municipalities contract with the Authority for sewage disposal services. In 1987 and 1998 the Authority issued bonds to fund plant construction. The member municipalities are obligated to pay for services in amounts sufficient to cover the operating costs and debt obligations of the Authority.

In 2004, the Authority approved an agreement with Powderhorn Area Utility District (PAUD) to provide sewage disposal services. This agreement states that the Authority will perform routine maintenance for PAUD. The Authority will charge for these services at its cost. In connection with this agreement, PAUD will provide plant improvements to assets of the Authority. It is estimated that total improvements to the plant will amount to approximately \$975,000. As of June 30, 2005, engineering services for these improvements were beginning.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded its liabilities as of June 30, 2005 and 2004 by \$5,720,439 and \$5,788,175, respectively.
- The Authority's investment in capital assets, net of related debt as of June 30, 2005 and 2004 was \$5,252,846 and \$5,334,648, respectively.
- The Authority's total revenue for the fiscal years ended June 30, 2005 and 2004, were \$328,887 and \$323,486, respectively.
- The Authority's total expenses for the fiscal years ended June 30, 2005 and were \$396,623 and \$402,657, respectively.
- There were no plant additions or capital contributions during the fiscal years.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following financial statements are included in this report:

- Statement of Net Assets – reports the Authority current financial resources: its cash and other current assets, its current and non-current liabilities and comparing those two elements, the resulting net assets of the Authority.
- Statement of Revenue, Expenses and Changes in Net Assets – reports the Authority's various revenue and expenses.
- Statement of Cash Flows – reports sources and uses of cash by operating activities, capital and related financing activities, and investing activities.

ANALYSIS OF FINANCIAL STATEMENTS

Condensed Financial Information

Statement of Net Assets

The following is a condensed statement of net assets with a detailed analysis of the statement below as of June 30,

ASSETS			
	2005	2004	Increase (Decrease)
Current Assets:			
Checking / Savings	\$ 43,292	\$ 51,115	\$ (7,823)
Other Current Assets	210,465	199,583	10,882
Total Current Assets	253,757	250,698	3,059
Fixed Assets	7,706,846	7,833,648	(126,802)
Other Assets	248,519	235,164	13,355
TOTAL ASSETS	<u>\$ 8,209,122</u>	<u>\$ 8,319,510</u>	<u>\$ (110,388)</u>
LIABILITIES & EQUITY			
Current Liabilities:			
Account Payable	\$ 2,247	\$ 225	\$ 2,022
Other Current Liabilities	83,436	77,110	6,326
Total Current Liabilities	85,683	77,335	8,348
Other Liabilities	2,403,000	2,454,000	(51,000)
Total Liabilities	2,488,683	2,531,335	(42,652)
Equity	5,720,439	5,788,175	(67,736)
TOTAL LIABILITIES & EQUITY	<u>\$ 8,209,122</u>	<u>\$ 8,319,510</u>	<u>\$ (110,388)</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 5,252,846	\$ 5,334,648	\$ (81,802)
Restricted for debt service	65,078	58,011	7,067
Restricted for capital projects	183,441	177,153	6,288
Unrestricted	219,074	218,363	711
Total Net Assets	<u>\$ 5,720,439</u>	<u>\$ 5,788,175</u>	<u>\$ (67,736)</u>

Capital assets, net of related debt is derived by taking the original cost of the Authority's assets, subtracting accumulated depreciation to date, and comparing this figure to the amount of long-term debt used to finance the acquisition of those assets.

The total unrestricted net assets is the net accumulated result of the current and past year's operations. The nature of the Authority's operations is based on charges for services and federal grants. The balance in the unrestricted net assets shows that the Authority has an ample amount of assets to fund liabilities at June 30, 2005.

Statement of Revenues, Expenses, and changes in Net Assets

The results of operations for the Authority are reported in the statement of revenues, expenses, and changes in net assets. A summary of the results of operations are as follows for the years ended June 30,

	2005	2004	Increase (Decrease)
Operating Revenues:			
Charges for services	\$ 319,919	\$ 319,216	\$ 703
Miscellaneous	5,187	711	4,476
Total Operating Revenue	325,106	319,927	5,179
Operating Expenses	277,830	281,727	(3,897)
Operating Income	47,276	38,200	9,076
Other Revenue (Expenses):			
Interest Income	3,781	3,559	222
Interest Expense	(118,793)	(120,930)	2,137
Capital contributions	-	-	-
Change in Net Assets	(67,736)	(79,171)	11,435
Beginning Net Assets	5,788,175	5,867,346	(79,171)
Ending Net Assets	\$ 5,720,439	\$ 5,788,175	\$ (67,736)

Depreciation expense of \$126,802 and \$126,891 were charged to operating expenses for the years ended June 30, 2005 and 2004, respectively.

Fund Budget Items

The Authority prepared an annual budget and revises it to account for changes in expenditures as needed.

Capital Assets

At June 30, 2005, the Authority had \$5,252,846 invested in capital assets, net of accumulated depreciation. Assets were capitalized at historical cost. The Authority had no plant additions during the years ended June 30, 2005 and 2004.

Debt

The Authority has \$2,454,000 of long-term liabilities at June 30, 2005. This amount consists of bonds payable to USDA Rural Development. Detail on the bonds can be found in the notes to the financial statements.

Future Considerations

Plant improvements of approximately \$975, 000 are planned for the next 1-2 years. These improvements are anticipated to be funded entirely by other governmental agencies at no cost to the Authority.

Contacting the Authority

If you have any questions about this report or need additional information, contact the Authority Administrator at 411 S. Sophie Street, Bessemer, MI 49911, telephone 906-667-0800.

DAVID TRACZYK

Certified Public Accountant

327 SILVER STREET
HURLEY, WISCONSIN 54534-1255

Member: AICPA, WICPA

Licensed: MI, WI

Tel: 715-561-3299

Fax: 715-561-4099

INDEPENDENT AUDITOR'S REPORT

Chairman and Members of the Board
Bessemer Area Sewer Authority
Bessemer, Michigan

I have audited the accompanying financial statements of Bessemer Area Sewer Authority, as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bessemer Area Sewer Authority as of June 30, 2005 and 2004, and the results of its operations and the cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 20, 2006, on my consideration of the Authority's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

January 20, 2006

BESSEMER AREA SEWER AUTHORITY
STATEMENT OF NET ASSETS

June 30,

ASSETS

	<u>2005</u>	<u>2004</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 43,292	\$ 51,115
Investments	180,400	178,976
Due from other governments	19,922	10,515
Prepaid expenses	<u>10,143</u>	<u>10,092</u>
Total current assets	253,757	250,698
NONCURRENT ASSETS		
RESTRICTED ASSETS		
Cash and cash equivalents	<u>248,519</u>	<u>235,164</u>
Total restricted assets	248,519	235,164
CAPITAL ASSETS		
Property, plant and equipment	9,574,375	9,574,375
Less accumulated depreciation	<u>(1,867,529)</u>	<u>(1,740,727)</u>
Total capital assets	<u>7,706,846</u>	<u>7,833,648</u>
Total noncurrent assets	<u>7,955,365</u>	<u>8,068,812</u>
Total assets	<u><u>\$ 8,209,122</u></u>	<u><u>\$ 8,319,510</u></u>

See accompanying notes to basic financial statements.

BESSEMER AREA SEWER AUTHORITY
STATEMENT OF NET ASSETS
June 30,

LIABILITIES

	<u>2005</u>	<u>2004</u>
CURRENT LIABILITIES		
Accounts payable	\$ 2,247	\$ 225
Accrued payroll	<u>12,939</u>	<u>12,251</u>
Total current liabilities	15,186	12,476
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accrued interest	19,497	19,859
Notes and bonds payable	<u>51,000</u>	<u>45,000</u>
Total current liabilities payable from restricted assets	70,497	64,859
NONCURRENT LIABILITIES		
Notes and bonds payable, net	<u>2,403,000</u>	<u>2,454,000</u>
Total noncurrent liabilities	<u>2,403,000</u>	<u>2,454,000</u>
Total liabilities	<u>2,488,683</u>	<u>2,531,335</u>

NET ASSETS

Invested in capital assets, net of related debt	5,252,846	5,334,648
Restricted for debt service	65,078	58,011
Restricted for capital projects	183,441	177,153
Unrestricted	<u>219,074</u>	<u>218,363</u>
Total net assets	<u>\$ 5,720,439</u>	<u>\$ 5,788,175</u>

See accompanying notes to basic financial statements.

BESSEMER AREA SEWER AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years ended June 30,

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Services to member municipalities	\$319,919	\$319,088
Miscellaneous revenue	<u>5,187</u>	<u>839</u>
Total operating revenues	325,106	319,927
Operating expenses:		
Administrative wages	3,402	3,990
Other administration	5,904	9,731
Insurance	13,825	12,693
Salaries and wages	65,194	62,648
Fringe benefits	31,725	32,192
Supplies	8,040	12,902
Utilities	17,592	17,590
Repairs and maintenance	5,346	3,090
Depreciation	<u>126,802</u>	<u>126,891</u>
Total operating expenses	<u>277,830</u>	<u>281,727</u>
Operating Income (Loss)	47,276	38,200
Non-operating revenues (expenses):		
Interest income	3,781	3,559
Interest expense	<u>(118,793)</u>	<u>(120,930)</u>
Total non-operating revenue (expenses)	<u>(115,012)</u>	<u>(117,371)</u>
Net Income Before Contributions	(67,736)	(79,171)
Capital contributions	<u>-</u>	<u>-</u>
Change in Net Assets	(67,736)	(79,171)
Net Assets at Beginning of Year	<u>5,788,175</u>	<u>5,867,346</u>
Net Assets at End of Year	<u><u>\$ 5,720,439</u></u>	<u><u>\$ 5,788,175</u></u>

See accompanying notes to basic financial statements.

BESSEMER AREA SEWER AUTHORITY
STATEMENT OF CASH FLOWS
Years ended June 30,

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$315,699	\$327,716
Payments to suppliers	(79,773)	(87,061)
Payments to employees	<u>(68,596)</u>	<u>(69,906)</u>
Net Cash Provided (Used) by Operating Activities	167,330	170,749
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	0	0
Capital contributions	0	0
Principal paid on notes and bonds payable	(45,000)	(44,000)
Interest paid on notes and bonds payable	<u>(119,155)</u>	<u>(121,285)</u>
Net Cash Provided (Used) for Capital and Related Financing Activities	(164,155)	(165,285)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(74,662)	(1,459)
Proceeds from sale of investments	73,238	0
Interest received on investments	<u>3,781</u>	<u>3,559</u>
Net Cash Provided (Used) by Investing Activities	<u>2,357</u>	<u>2,100</u>
Net Increases (Decrease) in Cash and Cash Equivalents	5,532	7,564
Balances - Beginning of Year	<u>286,279</u>	<u>278,715</u>
Balances - End of Year	<u><u>\$291,811</u></u>	<u><u>\$286,279</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$47,276	\$38,200
Adjustments to reconcile operating income (loss) to net cash provided (Used) by operating activities:		
Depreciation	126,802	126,891
Change in assets and liabilities:		
Accounts receivable	(9,407)	7,789
Prepaid expenses	(51)	(862)
Accounts payable	<u>2,710</u>	<u>(1,269)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$167,330</u></u>	<u><u>\$170,749</u></u>
Noncash investing, capital and financing activities:	none	none

See accompanying notes to basic financial statements.

BESSEMER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2005 and 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Bessemer Area Sewer Authority (the Authority) provides sewage transmission and treatment services to customers located within the City of Bessemer and a portion of the Township of Bessemer, Michigan. The system became operational July 1, 1988. The Authority was incorporated February 28, 1985, to acquire, own, improve, enlarge, extend and operate a sewage disposal system in accordance with Act 233, Public Acts of Michigan, 1955, as amended. The Authority is governed by a Board of Trustees comprised of members from the two constituent municipalities, City of Bessemer and Township of Bessemer, Michigan. Service charges for sewage disposal services are in conformity with a sewer use ordinance adopted by the participants in connection with the sewage disposal system bonds issued to help finance construction of the system.

In evaluating how to define the Authority, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP). The basic – but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing Authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its constituents, or whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities.

Based upon the application of these criteria, the basic financial statements of the Authority contain all the funds and account groups controlled by the Authority's Board as no other entity meets the criteria to be considered a component unit of the Authority nor is the Authority a component unit of another entity.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting and Basis of Presentation

The financial statements of the Authority are prepared in accordance with accounting principles generally accepted in the United States of America. The Authority applies all relevant Government Accounting Standards Board (GASB) pronouncements. As enterprise funds, the Authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The Authority has not adopted GASB Statement No. 20.

The accrual basis of accounting is used by the Authority. Under the accrual basis, revenues are recognized when earned and expenses are recorded when incurred. The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net assets. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted; and unrestricted components.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Operating revenues and expenses are distinguished from nonoperating items in the statement of revenues, expenses and changes in net assets. Operating revenues and expenses result from providing services in connection with the Authority's principal ongoing operations. Principal operating revenues of the Authority are charges to member municipalities to recover the costs within the individual municipalities. The charges to recover the financing costs are allocated to the member municipalities based on construction cost allocations. Operating expenses include the cost of providing sewage treatment, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal nonoperating revenues of the Authority are grants and investment income. The principal nonoperating expenses of the Authority include interest expense.

Capital grant funding represents amounts received from capital project grants which are restricted to capital acquisition or construction. The Authority recognizes capital grant funding when the grants are earned which is generally when the related capital expenditure is made.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deposits and Investments

Deposits are carried at cost. Deposits are in several financial institutions in the name of the Local Unit Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; bankers' acceptance of the United States banks; commercial paper rated within the three highest classifications by not less than two standard ratings services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Local Unit's deposits are in accordance with statutory authority.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition.

Receivables

The amount due from other governments consists of charges to member municipalities for administration and financing costs. All amounts have been determined to be collectible and no allowance has been recorded.

The Authority does not accrue unbilled service at the end of the year with respect to service provided but not billed at such date.

Capital Assets

Capital assets are generally defined by the Authority as assets with an initial, individual cost of more than \$1,000. Maintenance and repair costs are charged to expense as incurred.

Capital assets are reported at cost or the fair market value at the time of contribution to the Authority. Major outlays for plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the plant constructed, net of interest earned on the invested proceeds over the same period. Capital assets in service are depreciated using the straight-line method over the following useful lives:

Treatment plant	50
Machinery & equipment	7 - 12
Collection system	50 - 100
General	5

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

The Authority has two full time employees. They are allowed to accumulate sick leave up to 110 days. Upon severance, the employees are allowed to be paid for unused sick leave up to 100 days, prorated based on years of service. They are also allowed vacations based on years of service. The amounts of accrued compensated absences as of June 30, 2005 and 2004 has been record as a current liability.

Equity Classifications

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bond's mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

NOTE B – CASH AND INVESTMENTS

All deposits were made in a bank authorized by the Board of Trustees and under authority of State of Michigan deposit laws. All deposits were made in financial institutions whose deposits are covered by federal depository insurance. For the purpose of the statement of cash flows, the Authority considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents. Investing is performed in accordance with investment policies complying with state statutes.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE B – CASH AND INVESTMENTS (continued)

The Authority's cash and investments consist of funds on hand and on deposit with local financial institutions as follows:

	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
June 30, 2004:			
Petty cash	\$ 88	\$ -	88
Demand deposits	293,702	-	293,702
Certificates of Deposits	<u>-</u>	<u>178,976</u>	<u>178,976</u>
	293,790	178,976	472,766
Less outstanding items	<u>(7,511)</u>	<u>-</u>	<u>(7,511)</u>
Balance	<u><u>\$ 286,279</u></u>	<u><u>\$ 178,976</u></u>	<u><u>\$ 465,255</u></u>
June 30, 2005:			
Petty cash	\$ 90	\$ -	90
Demand deposits	302,975	-	302,975
Certificates of Deposits	<u>-</u>	<u>180,400</u>	<u>180,400</u>
	303,065	180,400	483,465
Less outstanding items	<u>(11,254)</u>	<u>-</u>	<u>(11,254)</u>
Balance	<u><u>\$ 291,811</u></u>	<u><u>\$ 180,400</u></u>	<u><u>\$ 472,211</u></u>

In accordance with GASB No. 3, risk disclosure for bank deposits, the June 30 balances consisted of:

	<u>2005</u>	<u>2004</u>
a. Insured or collateralized with securities held by the entity or by its agent in the entity's name.	\$ 415,648	\$ 415,688
b. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.	-	-
c. Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name.)	<u>67,727</u>	<u>56,990</u>
	<u><u>\$ 483,375</u></u>	<u><u>\$ 472,678</u></u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE B – CASH AND INVESTMENTS (continued)

The above amounts include cash reserved as follows:

	June 30, 2005	2004
1. Bond and Interest Redemption Fund This account receives quarterly deposits to be used solely for payment of principal and interest of the bond issues and to fund the bond reserve accounts.	\$ 1,149	\$ 1,152
2. Bond Reserve Account (1998 issue) Starting April 1, 1998, quarterly deposits of \$1,685 are to be deposited into this account until \$67,400 is accumulated. These funds are to be used solely to pay the principal and interest of the 1998 bond issue as to which there would otherwise be default. The minimum required balance as of June 30, 2005 was \$48,865.	63,929	56,859
3. Replacement Fund This account is required to receive \$9,206 per year in accordance with provisions of the U.S. Environmental Protection Agency grant received in 1987. Funds are to be deposited into this account after the above 2 accounts are funded. These funds may be used to pay for the cost of repairing or replacing obsolete, deteriorating, deteriorated or worn out portions of the sewage disposal system, and when necessary, for the purpose of making payments of principal and interest on the 1998 and 1987 bond issues. The minimum required balance as of June 30, 2004 was \$150,668.	157,526	156,357
4. Improvement Fund This account is authorized to receive \$7,945 per year in accordance with provisions of the 1998 bond issue and approval of the Board. Funds are to be deposited into this account after the above 3 accounts are funded. These funds may be used only for the purpose of paying the cost of making improvements to the system, and when necessary, for the purpose of making payments of principal and interest on the 1987 or 1998 bond issues.	25,915	20,796
Total Cash Reserved	<u>\$ 248,519</u>	<u>\$ 235,164</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE C – CAPITAL ASSETS

A summary of property, plant and equipment and related depreciation data, follows:

<u>Plant Cost</u>		<u>June 30, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2004</u>
Land		\$ 46,850	\$ -	\$ -	\$ 46,850
Treatment plant		2,883,021	-	-	2,883,021
Collection system		6,507,936	-	-	6,507,936
Machinery and equipment		136,568	-	-	136,568
		<u>\$ 9,574,375</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,574,375</u>

<u>Accumulated Depreciation</u>	<u>Estimated Useful Lives</u>	<u>June 30, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2004</u>
Land	N/A	\$ -	\$ -	\$ -	\$ -
Treatment plant	50 years	864,900	57,660	-	922,560
Collection system	50-100 years	644,108	65,555	-	709,663
Machinery and equipment	5-12 years	104,828	3,676	-	108,504
		<u>\$ 1,613,836</u>	<u>\$ 126,891</u>	<u>\$ -</u>	<u>\$ 1,740,727</u>

<u>Plant Cost</u>		<u>June 30, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2005</u>
Land		\$ 46,850	\$ -	\$ -	\$ 46,850
Treatment plant		2,883,021	-	-	2,883,021
Collection system		6,507,936	-	-	6,507,936
Machinery and equipment		136,568	-	-	136,568
		<u>\$ 9,574,375</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,574,375</u>

<u>Accumulated Depreciation</u>	<u>Estimated Useful Lives</u>	<u>June 30, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2005</u>
Land	N/A	\$ -	\$ -	\$ -	\$ -
Treatment plant	50 years	922,560	57,660	-	980,220
Collection system	50-100 years	709,663	65,555	-	775,218
Machinery and equipment	5-12 years	108,504	3,587	-	112,091
		<u>\$ 1,740,727</u>	<u>\$ 126,802</u>	<u>\$ -</u>	<u>\$ 1,867,529</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE D – LONG TERM DEBT

On March 18, 1987, the Board of Trustees adopted a resolution which was amended on June 17, 1987, authorizing the issuance of \$ 1,700,000 of Sewage Disposal System No. 1 Bonds (Limited Tax General Obligation) pursuant to Act 233, Public Acts of Michigan, 1955, as amended. The Authority has entered into a contract with each of the constituent municipalities whereby the municipalities have each pledged its limited tax full faith and credit for the payment of the municipality's share of the obligation. The municipalities will be required to levy ad valorem taxes within applicable constitutional and statutory tax limitations on all taxable property within their boundaries to the extent necessary to make the payments required to pay principal and interest on the bonds if other funds for that purpose are not available. The bonds are in the form of a single, fully-registered bond of the denomination of \$ 1,700,000, dated May 1, 1987, and are payable in principal installments serially on May 1 of each year and interest installments at the annual rate of 5% a year on May 1 and November 1 of each year.

On May 11, 1998, the Board of Trustees issued \$ 1,237,000 Sanitary Sewage Disposal System Revenue Bonds Series 1998, pursuant to Act 94, Public Acts of Michigan, 1933, as amended. The bonds are in the form of a single, fully registered bond of the denomination of \$ 1, 237,000, dated May 11, 1998, and are payable in principal installments serially on May 1 of each year and interest installments at the annual rate of 4.5% a year on May 1 and November 1 of each year.

A summary of changes in long-term debt are as follows:

	1987 Bond Issue	1998 Bond issue	Total
Balance at June 30, 2003	\$ 1,370,000	\$ 1,173,000	\$ 2,543,000
Retired in 2003-2004	<u>(30,000)</u>	<u>(14,000)</u>	<u>(44,000)</u>
Balance at June 30, 2004	1,340,000	1,159,000	2,499,000
Retired in 2004-2005	<u>(30,000)</u>	<u>(15,000)</u>	<u>(45,000)</u>
Balance at June 30, 2005	<u><u>\$ 1,310,000</u></u>	<u><u>\$ 1,144,000</u></u>	<u><u>\$ 2,454,000</u></u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE D – LONG TERM DEBT (continued)

The annual aggregate maturities for the bonds for years subsequent to June 30, 2005, are as follows:

Year ending June 30,	Principal	Interest	Total
2006	\$ 51,000	\$ 116,980	\$ 167,980
2007	51,000	114,510	165,510
2008	52,000	112,040	164,040
2009	58,000	109,525	167,525
2010	59,000	106,715	165,715
2011-2015	337,000	488,370	825,370
2016-2020	439,000	396,910	835,910
2021-2025	567,000	279,380	846,380
2026-2030	398,000	142,840	540,840
2031-2035	258,000	76,820	334,820
2036-2040	184,000	16,740	200,740
	<u>\$ 2,454,000</u>	<u>\$ 1,960,830</u>	<u>\$ 4,414,830</u>

NOTE E – PENSION PLAN

On March 3, 1999, the Authority established a simple IRA pension plan. The plan became effective July 1, 1999. The plan covers all employees that receive at least \$ 5,000 in compensation during any 2 preceding years and is reasonably expected to receive at least such amount during the current year.

The terms of the plan state that the Authority will match voluntary employee contributions to the plan, up to a maximum of 3% of the eligible wages.

The Authority's total payroll for the years ended June 30, 2005 and 2004 was \$68,596, and \$69,906, respectively. Annual contributions to the pension plan were \$1,092 and \$1,288, based on eligible wages of \$65,194 and \$65,916 for 2 employees for the years ended June 30, 2005 and 2004, respectively.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE F – RELATED PARTY TRANSACTIONS

Terms of a sewer use ordinance call for each member municipality of the Authority to make payments to the Authority. The payments shall be sufficient to cover the operating costs and debt obligations of the Authority. These payments are allocated and billed by the Authority to the members based on percentages used to estimate the respective use of the facilities. During the years ended June 30, 2005 and 2004, the Authority recognized the following revenues from its contacting members:

	<u>June 20, 2005</u>	<u>June 30, 2004</u>
City of Bessemer	\$ 287,662	\$ 286,831
Bessemer Township	<u>32,257</u>	<u>32,257</u>
Total	<u>\$ 319,919</u>	<u>\$ 319,088</u>

NOTE G – COMMITMENTS AND CONTINGENCIES

In the normal course of construction projects, the Authority receives loan and grant funds from various federal and state agencies. These programs are subject to audit by agents of the lending and granting agencies, the purpose of which is to ensure compliance with conditions precedent to the awarding of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

NOTE H – RISK MANAGEMENT

The Authority is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Authority has obtained coverage from a commercial insurance company. The Authority has comprehensive general liability coverage of \$1,000,000 per occurrence and \$3,000,000 in the aggregate and has obtained worker' compensation coverage.

All risk management activities are accounted for in the financial statements of the Authority. Expenses and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the Authority as of June 30, 2005, will not materially affect the financial condition of the Authority. Therefore, the financial statements contain no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE I – ECONOMIC DEPENDENCY

The Authority operates on finances and guarantees provided by the member municipalities. Accordingly, the Authority is dependent on the continuing support provided by these member municipalities.

OTHER FINANCIAL INFORMATION

DAVID TRACZYK

Certified Public Accountant

327 SILVER STREET
HURLEY, WISCONSIN 54534-1255

Member: AICPA, WICPA

Licensed: MI, WI

Tel: 715-561-3299

Fax: 715-561-4099

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Chairman and Members of the Board
Bessemer Area Sewer Authority
Bessemer, Michigan

I have audited the financial statements of Bessemer Area Sewer Authority as of and for the years ended June 30, 2005 and 2004, and have issued my report thereon dated January 20, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Bessemer Area Sewer Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Bessemer Area Sewer Authority's financial statements are free of material misstatement, I performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and member municipalities, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

January 20, 2006